

Message Text

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ORIGIN NEA-10

INFO OCT-01 ISO-00 EB-08 /019 R

DRAFTED BY NEA/ARP:D M WINN:LB
APPROVED BY NEA/ARP:J W TWINAM
NEA/IRN:M JOHNSON

-----025313 142035Z /41

R 132242Z JUL 78

FM SECSTATE WASHDC

TO AMEMBASSY ABU DHABI

INFO AMEMBASSY TEHRAN

C O N F I D E N T I A L STATE 177615

E.O. 11652: GDS

TAGS: ENRG, EINV, IR, TC

SUBJECT: CRESCENT PETROLEUM PROBLEM

REFERENCES: (A) ABU DHABI 1701, (B) STATE 154087

1. ELY BRIEFED ARP JULY 12 ON STATUS OF CRESCENT'S DISPUTE WITH SHARJAH AND NIOC. HE SAID THAT ON JUNE 30 HE AND BUTTES OFFICIALS CALLED ON PRESIDENT EDUARDO ARECHAGA OF INTERNATIONAL COURT OF JUSTICE AT THE HAGUE, LEAVING WITH ARECHAGA LETTER FROM E.W. WELLBAUM, BUTTES' PRESIDENT, REQUESTING APPOINTMENT OF ARBITRATOR FOR SHARJAH. ARECHAGA, SAID ELY, RECEIVED BUTTES PARTY QUITE CORDIALLY AND NOTED THAT HE HAD ALREADY RECEIVED CABLE FROM YUSRI DWEIK, LEGAL ADVISER TO RULER OF SHARJAH, AND LETTER FROM RULER HIMSELF, ADVISING ARECHAGA THAT SHARJAH WILL NOT OBSERVE ANY PROCEEDINGS OR AWARD CONDUCTED OR REACHED BY ARBITRATOR BECAUSE DISPUTE FALLS OUTSIDE ARBITRATION JURISDICTION.

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2. ELY SAID THAT HE WAS LATER INFORMED THAT ARECHAGA HAD REPLIED TO DWEIK AND RULER IN WRITING ON JULY 10, STATING THAT SHARJAH'S CONTENTION THAT MATTERS IN DISPUTE ARE OUTSIDE ARBITRATION JURISDICTION IS POINT "THE DECISION ON WHICH MUST BE RESERVED FOR THE ARBITRATORS."

ARECHAGA ACCORDINGLY INFORMED RULER THAT HE INTENDS TO

APPOINT ARBITRATOR, PENDING FURTHER WORD FROM RULER ON LATTER'S OPPOSITION TO THIS COURSE OF ACTION. ELY SAID THAT ARECHAGA TOLD HIM THAT HE IS WILLING TO WAIT ONE MONTH FOR RULER'S REPLY BEFORE ACTUALLY APPOINTING ARBITRATOR. COPIES OF ALL CORRESPONDENCE BEING POUCHED TO EMBASSY, C/O AMBASSADOR.

3. ELY WENT ON TO COMMENT THAT THERE ARE INDICATIONS THAT OUTPUT FROM CRESCENT FIELD IS DECLINING MORE RAPIDLY THAN WAS PREVIOUSLY EXPECTED--TO EXTENT, IN FACT, THAT TAX RATE OF 77 PERCENT, EVEN WITHOUT RETRO-ACTIVITY, WOULD CAUSE COMPANY TO LOSE MONEY. HE SAID THAT CRESCENT CAN MANAGE SLIGHT MARGIN WITH NON-RETROACTIVE RATE NO MORE ONEROUS THAN 55 PERCENT.

4. ELY SAID THAT SHARJAH AND NIOC REPRESENTATIVES HAD RECENTLY TRAVELED TO HOUSTON TO DISCUSS MATTER WITH CRESCENT, ONLY TO MISS EACH OTHER DUE TO ALLEGED INABILITY TO LOCATE ONE ANOTHER THERE. HE SAID THAT NEW MEETING, PROBABLY IN LONDON, WAS SCHEDULED FOR AUGUST 1.

5. ON ANOTHER SUBJECT ELY MENTIONED FACT THAT HE REMAINS SHARJAH'S LEGAL COUNSEL IN SHARJAH-DUBAI BOUNDARY DISPUTE, ON WHICH ARBITRATORS ARE MEETING. HE SAID THAT BOTH SIDES TO DISPUTE WANT JULIAN WALKER TO APPEAR AS WITNESS, ALTHOUGH INFORMAL SOUNDINGS OF WALKER IN SHEMLAN INDICATE CONFIDENTIAL

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THAT HIS TESTIMONY WILL SUPPORT SHARJAH POSITION.
CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE177615
Document Source: CORE
Document Unique ID: 00
Drafter: D M WINN:LB
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780289-0768
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780762/aaaacagu.tel
Line Count: 96
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9137da75-c288-dd11-92da-001cc4696bcc
Office: ORIGIN NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 ABU DHABI 1701, 78 STATE 154087
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2014803
Secure: OPEN
Status: NATIVE
Subject: CRESCENT PETROLEUM PROBLEM
TAGS: ENRG, EINV, IR, TC, CRESCENT PETROLEUM
To: ABU DHABI
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9137da75-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014